Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 4, 2014

Ms. Julia Alfred
Secretary of Health
Republic of the Marshall Islands

Dear Ms. Alfred:

In planning and performing our audit of the financial statements of the Marshall Islands Health Fund (the Fund) as of and for the year ended September 30, 2013 (on which we have issued our report dated June 4, 2014), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered the Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Fund's internal control over financial reporting and other matters as of September 30, 2013, that we wish to bring to your attention.

We have also issued a separate report to the Honorable Phillip Muller, Minister of Health, also dated June 4, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Ministry of Health, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Fund's internal control over financial reporting as of September 30, 2013, that we wish to bring to your attention:

(1) Travel Advances

RepMar's Ministry of Finance memorandum on Travel Rules and Regulations requires travelers to submit Travel Voucher Claims 15 days after the end of the travel. As of September 30, 2013, $9,979 in travel advances have been outstanding for periods from two months to three years. We recommend that management scrutinize long outstanding advances and necessary adjustments occur in a timely manner.

(2) Bank Reconciliations

During tests of bank reconciliations, we noted that there was no apparent signature of independent reviewer as evidence of the review process. Furthermore, the Fund does not timely receive bank reconciliations from the third party administrator. Finally, we noted that the Fund did not perform an audit of the third party administrator during fiscal year 2013. We recommend that management establish policies and procedures requiring that bank reconciliations be reviewed by independent management personnel other than the preparer. Furthermore, we recommend that management require the third party administrator to submit monthly bank reconciliations to facilitate monitoring and timely resolution of bank reconciling items. Finally, we recommend that management consider conducting periodic audits of the third party administrator to determine reliance on services provided and charges billed.

(3) Replenishment Forms

During scrutiny of replenishment forms submitted by the Third Party Administrator (TPA), we noted that there was no independent review by management personnel of the files sent. We recommend that management establish policies and procedures requiring an independent review of replenishment files submitted by the TPA to determine the accuracy, completeness, and validity of requests.

(4) Delegation of Authority

Upon examination of supporting replenishment requests (RF #s 2013-01, 2013-28, 2013-29, 2013-30, 2013-32, 2013-37, 2013-39, 2013-40, 2013-48, and 2013-49; Check #s 12714, 12949, and 12959; and HFTA0003023A), we noted that the approval officer was other than the authorized approval officer. No delegation of authority was made available to support the documented approval officer. We recommend that the authority of another officer signing on behalf of a named approving officer be memorialized through written delegation of authority.

(5) Reconciliation of Accounts

During our subsequent events review procedures, we noted that a number of accounts have significant decreases/increases due to the lack of timely posting/recording of transactions and lack of timely account reconciliations. We recommend that management establish policies and procedures requiring the timely posting and reconciliation of accounts to facilitate recorded financial transactions that reflect the current economic condition of the entity.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

<u>(1) Adequacy of Documents</u>

Certain documentation could not be provided us.

HF#13-20629, HF#14-201767
Check#12170, HFTA#0002800A3, HFTA#0002923A1
JV#6756, JV#7983

Documentation should be on file in support of all recorded financial statement transactions.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Fund's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.